basic local rates are not unreasonable in light of the high costs that the CLEC will face. A

misspecification of these inputs may yield results that, on their face, appear reasonable,

but which could not occur in reality.

B. The Model Fails to Consider Certain Key Factors in the Development of Competition for Local Exchange Services

Among the most important variables that will affect the ability of CLECs

profitably to provide local exchange service are the method adopted for reciprocal

compensation for local exchange traffic originating on CLEC networks and terminating

on ILEC networks and vice versa, and the development of a competitively neutral

universal service funding mechanism as required by Section 254 of the Act. Neither of

these variables is considered by the model.

As discussed in MCI's Comments in response to the Notice of Proposed

Rulemaking in this proceeding, the method adopted for reciprocal compensation for the

exchange of local exchange traffic is of crucial importance to CLECs in determining

whether they profitably may enter the market for local exchange services. A rate set

substantially above cost, or a differential in rates between the rate charged for traffic

originating on the CLEC's network and terminating on the ILEC's network and that

charged for traffic going in the opposite direction may have a major effect on the rate

charged by the CLEC and may determine whether CLECs may enter the market at all.

This is due to the fact that, at least initially, the vast majority of the CLECs' traffic will

terminate on the ILEC's network, while only a very small proportion of the ILEC's total

traffic will terminate to the CLECs' networks.[23] The model does not permit specification

of what reciprocal compensation mechanism will be adopted, nor does it permit

specification of a rate to be charged for local traffic exchange.

The model's treatment of universal service funding assumes that current universal

service funding programs will remain in place, and that all universal service funding will

be provided only to ILECs. While the model appears to provide for consideration of

alternative funding mechanisms for universal service, the relationship between the

adoption of alternative funding mechanisms and the existing universal service fund is not

modeled. At specification 58, the user of the model may enter a value for total universal

service funding by year. In specifications 59 through 65, the user may enter per-minute

amounts to be surcharged on access minutes or toll minutes, or a percentage surcharge on

total telecommunications revenue or total interstate telecommunications revenue.

However, there is no relationship in the model between the amounts entered in

specifications 59 through 65 and the amount of universal service funding in specification

58.

Thus, the model fails to permit consideration of a universal service funding

mechanism that is portable among carriers, and fails to consider the effects on the need

for current universal service funding in light of any alternative mechanisms for generating

universal service support. As a consequence of the lack of funding portability in the

model, a set of specifications could be entered that would appear to make CLEC entry

into the local market unprofitable (because the rate charged for unbundled loops, defined

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[23]   Even though a larger proportion of the CLEC's total traffic will terminate on the
         ILEC's network, there is no reason to believe that traffic exchanged between the
         carriers will be out of balance in absolute terms.

in the model as the current incremental cost plus any markups above cost specified), when a portable universal service funding mechanism would permit entry. At the same time, the total amount of universal service funding specified in the model goes to the ILEC bottom line, regardless of market penetration by the CLECs and the amount of universal service funding generated by other means

C. The Model Fails to Consider Certain Key Variables That Will Affect the Profitability of Companies Participating in the Market

In determining profitability of the ILECs, the model considers revenues only from basic local service, toll services, access services, private line services, and other billings to carriers. While the model has an input for growth in cellular services (specification 185) this value is used only in calculating total telecommunications revenue for purposes of calculating universal service funding that might be derived if a surcharge is imposed on this revenue in specifications 62 and 63. Any cellular revenue or growth in cellular revenue is not considered in calculating ILEC earnings. This omission is only one of several potential sources of profit for the ILECs that the model fails to consider. The RBOCs have announced ventures in internet access services, video programming, cable television, and a host of other services. In addition, most of the RBOCs are involved in international ventures to provide telecommunications and other related services. None of these potential sources of profit are considered in calculating the net effects on ILEC earnings of the development of local competition and ILEC entry into the interLATA long distance market. If the Commission's concern is that its actions in setting interconnection and unbundled element rates or rules concerning these rates might have a detrimental impact on ILEC stock prices or dividend payments, it should recognize that

the model presents a very incomplete picture, and that the actual effect on earnings, when all sources of revenue and profits are considered, almost certainly will be substantially less than that depicted in the model.

The model also fails to consider a key impact to ILEC costs -- the effect of mergers between RBOCs. The model assumes that all in-region interLATA toll calls provided by the ILECs will terminate on their own network and thus will incur a different (and lower) cost than interLATA toll calls terminating out of region (which are assumed to be resold IXC minutes). Two mergers of RBOCs already have been proposed -- that between Pacific Telesis and SBC Corporation, and that between Bell Atlantic and NYNEX. If these mergers were to be completed, then a much higher proportion of calls than is contemplated by the model would effectively terminate "in-region" and thus would incur a lower cost per minute. Because these minutes were assumed in the model to be resold IXC minutes, the effect of mergers also would be to bring additional pressure to bear on IXC earnings, because IXCs would lose even the small margin likely to be derived from these resold minutes.

The model would benefit from a more detailed examination of the relationship between rates and costs for various services. Specification 30, for example, combines interstate and international usage. These two services have a very different cost/price relationship, and targeting of specific subsets of these customers by the ILECs as they begin to provide interLATA long distance could have a quite different impacts on IXC profitability. The calculation of the extent to which new entrants will target the most profitable customers also could benefit from a more detailed consideration of the factors that make a customer profitable for a carrier. The model is based on the assumption that

the high-volume toll user is the most profitable customer. This may not, in fact, be the case. In considering the total expenditures by a "total bill" customer, both the relationship between price and cost for the various services purchased by the customer, and the volumes associated with the customer's use of these services will be important in determining overall profitability. ILEC vertical services, for example, have a very high profit margin today. A customer who is a heavy user of vertical services may be more attractive than a high-volume toll user. This is particularly true as the higher-volume customers can demand a larger discount off full retail rates, thus narrowing the per-minute profit margin, than can a lower-volume customer. Some of the IXCs' largest business customers are telecommunications resellers. Given the large discount negotiated by these customers, they are only marginally profitable today.

Finally, the model fails to consider the effects of local usage patterns on profitability. Local usage is assumed to be the same for all loops, and the cost of switching and transporting calls within a local calling area are not modeled. Where rates for basic local service are set on a usage-sensitive basis, the calling patterns of particular customer classes may be important in determining which local customers are profitable and which are not. This will be particularly true in the case where an explicit rate is adopted for exchange of local traffic between the ILECs and CLECs. In this case, the calling patterns of customer classes may have significant effects on the profitability of CLECs, and, to a much lesser extent, the ILECs

D. Certain Calculations in the Model Are Incorrect and Generate Misleading Results

The model released in conjunction with the Notice contains a number of flaws that seriously affect its reliability in predicting market outcomes. Some of the flaws identified by MCI thus far are:

1) Treatment of "stranded" facilities

The model purports to calculate the effects on ILEC costs of any investment in facilities "stranded" due to the development of competition. This component of the model is controlled by specifications 151 ("Loss in line growth at which cost is increased to represent stranded plant"), 152 ("Loss in line growth at which maximum 'shadow' line per lost line is imputed"), 153 ("Percentage of ordinary line cost attributed to 'shadow' lines"), and 154 ("% of which is reduced in each of 10 successive years (maximum 10%)"). As MCI understands this portion of the model, a value entered in specification 152 will result in a portion of the cost of a certain percentage of the difference between baseline line growth and per-specification line growth to be imputed to the ILECs' total costs. Because the model calculates costs for "stranded" plant based on loss in line growth rather than loss in total lines, the model would permit plant to be considered "stranded" even if it has not yet been built. In other words, even with a positive line growth, where the LEC is continuing to add plant to respond to increasing demand, some amount of plant could be considered to be "stranded." In actuality, any problem that may develop due to "stranded" plant will not occur unless ILEC line growth is negative -- that is, until CLEC facilities-based competition has grown to the extent that former ILEC customers are abandoning

ILEC loops for CLEC loops at a rate faster than the underlying growth in access lines. For this reason, MCI believes that this component of the model generates inaccurate results, and specifications 151-154 should be set to zero if the model is to be considered in the Commission's decision-making.

2)   Treatment of changes in embedded cost

The model permits the user to input at specification number 131 the annual percent change in carriers' embedded cost. This value is applied to the embedded cost base of ILECs, CLECs and IXCs without distinction. The assumption underlying this calculation would appear to be that all three types of carriers are equally efficient, and therefore should experience the same degree of overall cost reduction over time. In fact, IXCs, who have operated in a competitive market for the last several years, and CLECs, who are entering a market as competitive companies, will have far less opportunity to reduce their embedded cost base than will the ILECs who have operated primarily in a protected monopoly environment in the past. The model does permit the user to specify a one-time write-off of assets (specification 95) and to specify an percentage by which the ILECs may reduce costs if their rate of return falls below 7 5 percent (specification 123). But there is no provision in the model to recognize the ongoing cost reductions that the ILECs may be able to achieve as competition develops, nor to recognize the differences in the embedded cost base between competitive companies and companies that have operated in a monopoly environment.

3)   No differential treatment of CLEC and ILEC incremental loop costs

The model uses a single value to represent the cost to ILECs of providing additional loops and the cost to CLECs of providing additional (facilities-based) loops, and does not permit a differential in cost between the two types of carriers. While the degree of competition from these technologies is uncertain, it is probably that some new entrants will use a different technology for provisioning loops than that used by ILECs (e.g., wireless, cable telephony) and that all CLECs will likely use a different network architecture, this does not appear to be a reasonable assumption. The model should permit independent specification of the cost of ILEC loops and CLEC facilities-based loops.

4)   No differential in cost for unbundled loop used in conjunction with CLEC switching vs. combined with unbundled local switching

The model does not distinguish in the charge to a CLEC for an unbundled loop where the CLEC provides switching and where the CLEC does not provide switching. The amount specified for the current incremental cost of providing an additional loop at specification 99 includes the local usage (switching and transport within the local calling area) associated with that loop. The costs attributed to the operation of the CLECs is this amount plus any markup defined in specifications 10 and 11 multiplied by the total number of CLEC loops less CLEC facilities-based loops. Thus, even if a positive value is specified in specification number 72 for the percentage of CLEC loops served by CLEC switches, the total cost of the loop, including local switching and transport, is attributed to the CLECs' total costs. The result is to overstate CLEC costs (presumably unbundled loops and unbundled local switching will be available as separate unbundled elements) for those loops served by the CLECs' switches.

5)	Universal service costs (to CLECs) appear to be double-counted

In determining IXC/CLEC operating income, the model first sums the total billings by the ILECs to other carriers. This amount is found in the "D" level sheet at row 535. Included in this amount is the amount input at specification 58 for universal service funding. In addition to the LEC billings, the model adds costs for adding or churning loops, and for billing and collection. In line 538, the total amount for billing and collection per loop (including ILEC residual loops, see paragraph 6 below) is added to a per-line universal service amount, found in row 521. The amount is row 521 is calculated as the total universal service amount (specification 58) divided by the total of CLEC business and residential loops and stated on a monthly basis. Universal service funding thus appears as a cost to the IXC/CLEC segment twice -- once as part of the total LEC billings to the IXC/CLEC segment, and a second time as a part of the billing and collection cost per loop. The result is that IXC/CLEC costs are overstated on an annual basis by the amount of total universal service funding.

6)	Mathematical errors

The version of the model released in conjunction with the Notice (MODEL30.WKS) contains two mathematical errors that MCI has discovered thus far in its examination of the model. First, the calculation of the cost of an additional access minute net of depreciation and return at specification number 102 is incorrect. The model calculates this amount as the total cost in specification 101 multiplied by the "ROR and depreciation component" in line 99. The amount should be calculated as the amount specified in specification 101 multiplied by one minus the "ROR and depreciation

component" in line 99. MCI discussed this concern with staff in the informal meeting conducted by staff on June 20, 1996, and believes that this error has been corrected in subsequent version of the model that has not yet been placed in the public record. Second, the billing and collection cost for CLECs is calculated in the "D" level sheet, at row 538, as the sum of CLEC unbundled and facilities-based loops, plus the LEC "residual" loops times the billing and collection cost per loop. As a result, it appears that the model is attributing to CLEC total costs the billing and collection costs not only for the CLECs' loops, but also for those ILEC loops serving customers that have not become ILEC "total bill" customers. In addition, this amount appears to be redundant of row 537, which is the billing and collection expenses associated with only CLEC loops. If this is correct, then the actual cost for billing and collection for CLEC loops is double-counted. MCI believes that this dramatically overstates costs for the CLECs.

While MCI is appreciative of the extra time granted for the filing of comments regarding the model, the complexity of the model has precluded a complete analysis of all calculations contained in the model. There may yet be other problems of which we are not aware.

IV.   Correct Values for Input Assumptions

As explained in the preceding section, the model fails to consider a number of important variables that will affect the ability of CLECs profitably to enter the local market, fails to consider a number of factors that will affect the overall profitability of the ILECs, and contains mathematical and logical errors that affect the accuracy and

reliability of the model's conclusions. To the extent that anyone uses the model in estimating the impact on industry segments of various decision regarding the pricing of interconnection and unbundled network elements. it would be essential that reasonable and coordinating inputs be used in specifying the operation of the model.

While MCI does not believe that use of the model in informing the Commission's decisions in this proceeding is appropriate. it offers in this section some suggestions for specification of the model that appear to yield reasonable outcomes. These suggestions are contained in an attachment to these Comments. Attachment B. In addition, MCI has incorporated into the FCC staff's model additional components that estimate the effect on stock prices for each of the seven RBOCs of changes in the FCC's model. The stock price calculator components assume that the baseline specified in the model correspond to the baseline estimate of stock analysts' earning forecasts contained in MCI's financial impact model. Increases or decreases in ILEC earnings predicted by the FCC model were then used as an input to the financial impact model to determine the likely impact on RBOC stock prices given the scenario specified in the FCC model

The scenario presented contains what MCI believes to be reasonable assumptions on values such as the underlying growth rate for various services, the underlying rate reduction rate for various services, and the rate of market penetration for CLECs into the local market, and for ILECs into the interLATA market (of course, this value depends crucially on the rate charged for unbundled network elements and upon other factors not considered in the model, as noted above). The baseline used for comparison purposes assumes no market entry by ILECs into the interLATA market, and no entry by CLECs into the local market.
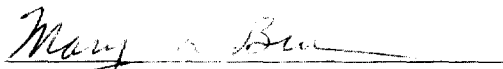
In Attachment B, the effects of reducing the price of both interstate and intrastate access to cost by the year 1998 is illustrated. MCI has specified that the industry structure factor (specification 66) is set at 0.5, and has posited ILEC acquisition of "total bill" business customers at 15% and 30% for residential customers (achieved in the year 2000) and CLEC penetration of the local market at 25% for business customers and 20% for residential customers (achieved in the year 2002) No markup over incremental cost for interconnection and unbundled network elements is assumed. As can be seen from the output sheets in this scenario, ILEC earnings decline in the first year of the transition, but the losses are made more than good in subsequent years as interLATA market share increases. At the same time, the IXC/CLEC profit rate remains below the ILECs'. Consumer surplus and overall economic surplus are positive. and the immediate effect on ILEC stock prices is very slightly negative

This scenario illustrates the importance of significant reductions in access charges prior to entry of the RBOCs into the interLATA market. Without such reductions, the rapid increase in ILEC market share will reduce IXC margins to a far greater extent than can be offset by increases in earnings due to CLEC entry into the local market.

V.   Conclusion

For the reasons stated herein, the Commission must not rely upon the released

model in reaching its decisions in this proceeding The Commission should adopt prices

for interconnection and unbundled network elements which are set at TSLRIC.

Respectfully submitted,
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ATTACHMENT A:
Review of RBOC Stock Price Sensitivity

A review of RBOC stock price sensitivity demonstrates that RBOC stock prices exhibit little or no reaction to regulatory actions since the enactment of the Telecommunications Act of 1996.

1)   February 8, 1996 - Enactment of the Telecommunications Act of 1996.

RBOC Industry Group Price
2/7   450.71
2/8   444.65
2/9   446.80

2)   April 11, 1996 - Washington UTC cuts USW revenue by $91 million a year (Docket UT-950200).

USW Share Price	RBOC Industry Group Price
4/10 $32.25	4/10 $380.23
4/11 $32.00	4/11 $377.89
4/12 $32.50	4/12 $383.50

NOTE: USW's price declined on the date of the rate case and rose back to over previous levels the day after the case. The overall RBOC average trend was the same during that time period.

3)   April 19, 1996 - FCC releases Notice of Proposed Rulemaking on Interconnection (CC Docket No. 96-98).

RBOC Industry Group Price
4/18 $393.63
4/19 $400.66
4/22 $405.65

4) May 29, 1996 - Georgia PSC orders 20.3% residential and 17% business discounts for resale (Docket 6352-U)

	BellSouth		RBOC Industry Group Price
5/28	$41.63	5/28	$404.18
5/29	$41.50	5/29	$401.40
5/30	$41.63	5/30	$396.25

NOTE: Average price rebounded to over $400 within 23 days on April 22nd. The closing price on that day was $405.65.

5) June 24, 1996 - The Wall Street Journal prints story that RBOC revenues could be jeopardized if FCC adopts pricing decision promoted by the long distance industry.

RBOC Industry Group Price

6/21	$397.00
6/24	$396.85
6/25	$393.88

NOTE: Share price for the RBOC average rebounded to 6/21 level within 3 days after the article is published. The close for the RBOC average on 6/27 was $399.

6) June 26, 1996 - The Michigan PSC orders dialing parity within 30 days (Docket U-10138). The Illinois Commerce Commission releases decisions which provide average wholesale discount of 22% for resale of local service (Docket 95-458) and which order a $31 million reduction in rates for Ameritech customers (Docket 96-0172).

	Ameritech Share Price		RBOC Industry Group Price
6/25	$58.37	6/25	$393.88
6/26	$57.37	6/26	$391.96
6/27	$58.38	6/27	$399.14

7)   June 27, 1996 - FCC adopts local number portability decision (CC Docket No. 95-116).

RBOC Industry Group Price
6/26 $391.96
6/27 $399.14
6/28 $404.52

ATTACHMENT B

CCB/OGC Simulation

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002

Model Specification
0% markup, 85% discount, access to cost

% markup, 85% discount, access to cost

30 MODEL30 WK3

Organiztion of spreadsheet
A level   Specifications
B level   Snapshot results
C level   Detailed results, consumer/producer welfare analysis
D level   Calc of interstate access charge revenue & expense buildups, input productivity
E level   Residential demand simulation
F level   Business demand simulation
G level   MACROS (use <alt>M to see documentation), Spavins-Lande productivity

Rates: Traditional Access Charges

	Description	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
1	Price Cap X Factor				5.3						

The FCC price cap rules calculates growth (g) using loops and interstate access minutes
*the following specification is 1, the model uses LEC retail customer loops and minutes that
are billed at traditional access rates. If the specification is 0, then the model uses total
LEC-provided loops (included unbundled loops) and total interstate minutes that hit*

	Description	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
2	LEC switches regardless of how they are billed										
3	Percent that LECs price below interstate cap (Note that the 1996 interstate access price reflects the fact that some LECs charge below cap. Thus, a positive specification represents additional pricing below the interstate cap				0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
4	Price of interstate toll access minutes	$0.0310	$0.0303	$0.0288	$0.0273	$0.0273	$0.0052	$0.0052	$0.0053	$0.0053	$0.0053
5	Percent decline in intrastate access rates (relative to avg inflation for three prior years)					0.00%	91.00%	0.70%	0.70%	0.70%	0.70%
6	Price of intrastate access	$0.0497	$0.0467	$0.0449	$0.0436	$0.0447	$0.0052	$0.0053	$0.0054	$0.0055	$0.0056

If CLECs pay traditional access charges for minutes
originating or terminating on unbundled loops.

	Description	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
7	% of CCL the CLEC pays on unbundled loop minutes				0%	0%	0%	0%	0%	0%	0%
8	% of non-CCL portion of access not applicable if CLEC provides local switching				100%	100%	100%	100%	100%	100%	100%

of current incremental cost (CIC) (☐Note Specify CIC in the cost section ☐)
[0 = 100% of cost, -50% = half, 100% = double -100% = no charge]

	Description	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
9	One-time charge for unbundling or churning a loop				0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
10	Monthly charge for residential loops				0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
11	Monthly charge for business loops				0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
12	Monthly charge for average amount of vertical services				0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

If CLECs pay non-traditional access charges for
minutes originating or terminating on unbundled loops.
  Price of interconnection toll minutes expressed as a
  markup of of current incremental cost (CIC) (Note

	Description	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
13	Specify CIC in the cost section)				0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Supplemental Access Billing - Percent of difference between traditional and non-traditional access rates bulk billed on

	Description	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
14	Interstate originating minutes not subject to access charges				0%	0%	0%	0%	0%	0%	0%
15	Interstate terminating minutes not subject to access charges				0%	0%	0%	0%	0%	0%	0%
16	Intrastate originating minutes not subject to access charges				0%	0%	0%	0%	0%	0%	0%
17	Intrastate terminating minutes not subject to access charges				0%	0%	0%	0%	0%	0%	0%
18	Negotiated interconnection rate between CLEC & IXCs expressed as a percentage				95%	95%	95%	95%	95%	95%	95%

of difference between LEC non-traditional vs traditional access charges (which is added to the non-traditional rate to get the total)

Rates: Local service

	Description	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
19	Residential customer local service rate	$13.22	$13.24	$13.66							
20	Business customer average service rate	$29.10	$27.40	$27.56							
21	Annual change in local rates (before inflation)				-2.0%	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%
22	Residential subscriber line charge (SLC) cap	$3.50	$3.50	$3.50	$3.50	$3.50	$3.50	$3.50	$3.50	$3.50	$3.50
23	SLC cap for additional residential access lines	$3.50	$3.50	$3.50	$3.50	$6.00	$6.00	$6.00	$6.00	$6.00	$6.00
24	Multi-line Business SLC cap	$6.00	$6.00	$6.00	$6.00	$6.00	$6.00	$6.00	$6.00	$6.00	$6.00

(Note single line business loops - 10% of total business loops - pay the residential
charge. Also, some SLCs, especially for multi-line business, are below caps. The
model gradually increases actual averages up to caps

For LEC customers, percent change in

	Description	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
25	Residential local rates first year of CLEC competition				0%	0%	0%	0%	0%	0%	0%
26	Business local rates first year of CLEC competition				0%	0%	0%	0%	0%	0%	0%

CLEC local rates as a percentage of LEC monthly rates including SLCs

	Description	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
27	Residential				90%	90%	90%	90%	90%	90%	90%
28	Business				90%	90%	90%	90%	90%	90%	90%
29	CLEC/LEC "total bill" customer discount (shown as positive) for residential additional lines				$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00

Rates: Toll

Average price per toll minute - all switched services including
800, 900, operator service, calling card etc
  Residential average toll rates

	Description	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
30	Interstate (including international)	$0.1976	$0.1960								
31	InterLATA intrastate	$0.1607	$0.1594								
32	IntraLATA	$0.1258	$0.1243								
	Business average toll rates										
33	Interstate (including international)	$0.1746	$0.1722								
34	InterLATA intrastate	$0.1198	$0.1181								
35	IntraLATA	$0.1258	$0.1243								
36	IXC "wholesale" price break to LECs for toll minutes that LECs resell			85.00%	85.00%	85.00%	85.00%	85.00%	85.00%	85.00%	85.00%

Flow through of traditional access charge changes (in per minute toll rates)

	Description	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
37	Residential interstate				100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
38	Residential intrastate				100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
39	Business interstate				100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

CCB/OGC Simulation		1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
40 Business intrastate				100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

CLEC flow-through (in per minute toll rates) of the difference between traditional and alternative access charges

41 Residential interstate				10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
42 Residential intrastate				10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
43 Business interstate				10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
44 Business intrastate				10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%

Annual change in non-access component of toll rates

45 before inflation				-4.0%	-4.0%	-4.0%	-4.0%	-4.0%	-4.0%	-4.0%	-4.0%
46	STD				0.02						

Added price cuts to non-access portion of toll charges for

47 CLEC/LEC "total bill" residential customers				0.00%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
48	STD				0.05						
49 CLEC/LEC "total bill" business customers				0.00%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
50	STD				0.05						
51 All customers first year of LEC entry into interLATA				10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%

Price Elasticities

52 Toll service elasticity based on current period rate change					-0.40						
53 Toll service elasticity based on current one-year prior rate change					-0.25						
54 Toll service elasticity based on current two-year prior rate change					-0.05						
55 Residential local service elasticity (based on total bill)					-0.008						
56 Residential additional line elasticity (based on local rate)					0.10						
57 Business local service elasticity (based on local rate)					0.10						

Surcharges

58 Universal service funding ($billions)		$0.680	$0.685	$0.698	$0.719	$0.741	$0.741	$0.741	$0.741	$0.741	$0.741
59 Flat amount per customer line						$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
60 Per interstate traditional access minute						$0.0000	$0.0000	$0.0000	$0.0000	$0.0000	$0.0000
61 Per intrastate traditional access minute						$0.0000	$0.0000	$0.0000	$0.0000	$0.0000	$0.0000
62 Percentage of all TRS reportable end-user revenue						0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
63 Percentage of all TRS reportable interstate end-user revenue						0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
64 Per minute of toll service (interLATA and intraLATA)						$0.0000	$0.0000	$0.0000	$0.0000	$0.0000	$0.0000
65 Per minute of interstate toll service						$0.0000	$0.0000	$0.0000	$0.0000	$0.0000	$0.0000

Industry Structure

66 Distribution skewing factor [1= very little; 1 = pure cream skim]						0.50	STD	0.1			

Note: CLECs are likely to target the most profitable customers when they enter a market. The LECs would likely do the same when entering IXC markets. This is called "cream skimming." The model has 7 categories of residential customers and 3 categories of business customers stratified by toll usage. The model assumes that the highest volume toll customers are the most profitable. The user uses the skewing factor to specify how successful competitors will be at cream skimming. To see how this factor works, specify a growing percentage of residential CLEC or LEC "total bill" loops, vary the skew, and then observe the modeled distribution of 'proprietary' customers by toll usage category. (approx. lines 77-84 in the E level)

67 % of CLEC traffic at alternative access charges vs. traditional access charges					100%	100%	100%	100%	100%	100%	100%

% of all loops provided by CLECs (Note: /RUN will range value all of the percentages)

68 Residential					0.00	0.02	0.05	0.07	0.10	0.15	0.20
69 Business					0.00	0.03	0.07	0.10	0.15	0.20	0.25
70 STD1 for avg. percent difference all years					0.25						
71 STD2 for year-over-year changes					0.25						
72 % CLEC loops served by CLEC switch						20.0%	20.0%	25.0%	25.0%	30.0%	30.0%
73 % CLEC loops provided with CLEC's own facilities						1.0%	2.0%	3.0%	4.0%	5.0%	8.0%
74 Likelihood of terminating with affiliate if CLEC originates a call						0%	0%	0%	0%	0%	0%
75 % of terminating toll that IXCs "reroute" to LEC thru CLEC				0%	0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
76 % of business originating minutes via special access				43.0%	43.4%	43.9%	44.3%	44.7%	45.2%	45.6%	46.1%	46.6%

IXC share of LEC residual customer intraLATA toll

77 Residential				7%	5%	7%	9%	11%	12%	14%	16%	18%
78 Business				7%	5%	7%	9%	11%	12%	14%	16%	18%

% of all loops that become LEC "total bill" customers (Note: /RUN will range value all of the percentages.)

79 Residential					0.00	0.00	0.12	0.24	0.30	0.30	0.30
80 Business					0.00	0.00	0.08	0.12	0.15	0.15	0.15
81 STD1 - avg. percent difference					0.25						
82 STD2 - year over year changes					0.25						
83 Percent of LEC originated interstate that terminates "in region"				30%	30%	30%	30%	30%	30%	30%	30%
84 Percent of LEC originated intrastate that terminates "in region"				90%	90%	90%	90%	90%	90%	90%	90%

85 Churn % 'total bill' & unbundled CLEC loops that churn in 1996					25.00%						
86 STD initial churn rate					25%						
87 Year-over-year change in churn rate through 2002					2%						
88 Churn rate for 2002 through 2010					10%						

Key Cost Specifications

89 Inflation in the economy (chain-type GDP price index)		2.7%	2.7%	2.5%	2.6%	2.8%	2.7%	2.7%	2.7%	2.7%	2.7%
90	STD				0.009						
91 Growth in real GDP		2.9%	4.1%	2.6%	1.8%	2.0%	2.0%	2.2%	2.2%	2.2%	2.2%
92 Moody's Aaa Corporate bond yield		7.22	7.97	7.59	7.10	7.40	7.40	7.40	7.40	7.40	7.40
93 Depreciation rate		0.073	0.073	0.073	0.073	0.073	0.073	0.073	0.073	0.073	0.073
94 Increase in depr. reserve per dollar of depr. expense		0.45456	0.44891	0.55	0.45	0.45	0.45	0.45	0.45	0.45	0.45
95 One-time write-offs of gross plant ($billions, shown positive)				$0	$0	$0	$0	$0	$0	$0	$0
96 Change in deferred taxes and other prepaid expenses		1.5%	0.4%								
97 Amortization of deferred taxes and other prepaid expenses				8.0%	-8.0%	-8.0%	-8.0%	-8.0%	-8.0%	-8.0%	-8.0%
98 Percent of tax at statutory rate that will be deferred				50%	50%	50%	50%	50%	50%	50%	50%

Note: The model calculates the traditional LEC's ROR on rate base. The model's rate base is calculated as gross plant minus accumulated

Attachment 1

depreciation less cost-free capital   For 1994, LECs reported about $50 billion of other liabilities and deferred credits in USOA 4300 level accounts. These include, for example, over $20 billion in federal taxes which were included in LEC revenue requirements but which had not been paid as of December 31, 1994   Regulators traditionally treat these amounts as cost free capital   The totals in the 4300 accounts grew rapidly through 1994 but may become relatively stable starting in 1995 because of tax law changes   Setting the two preceeding specifications at -8% and 50% produces a relatively stable total in the base case   See the expense section (approx line 250) in the C level

Key Cost Specifications - continued
Expense
Current incremental cost - modelled as cost per change in physical units

#	Description	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
99	Added monthly cost for providing an additional loop		$15 10		ROR & depreciation component					50%	
100	(Less included ROR & depreciation)		$7 55								
101	Added switching cost for additional access minute	$0 0045	$0 0045	$0 0045	$0 0046	$0 0046	$0 0046	$0 0047	$0 0047	$0 0047	
102	(Less included ROR & depreciation)	$0 0023	$0 0023	$0 0023	$0 0023	$0 0023	$0 0023	$0 0023	$0 0023	$0 0024	
	Assumed percent difference between CICs specified above and the actual CICs for loops and access minutes										
103			0%	7%	0%	0%	0%	0%	0%	0%	0%
104	Added monthly cost to provide billing/customer service		$4 00	$4 00	$4 00	$4 00	$4 00	$4 00	$4 00	$4 00	$4 00
	(Note: Cost is per loop Half the amount specified is removed from expense if LEC customer loops decrease)										
105	Added LEC expense of adding or churning an unbundled loop (including own)				$50 00	$50 85	$51 71	$52 59	$53 49	$54 40	
106	Added CLEC expense of adding or churning an unbundled loop (incl marketing)				$75 00	$76 28	$77 57	$78 89	$80 23	$81 60	
	To provide residential toll per minute (less ROR & depreciation)										
107	Interstate toll including international settlements	$0 0600	$0 0600	$0 0600	$0 0605	$0 0609	$0 0613	$0 0618	$0 0622	$0 0626	
108	Intrastate toll	$0 0300	$0 0300	$0 0300	$0 0302	$0 0305	$0 0307	$0 0309	$0 0311	$0 0313	
	To provide business toll per minute (less ROR & depreciation)										
109	Interstate toll including international settlements	$0 0500	$0 0500	$0 0500	$0 0504	$0 0508	$0 0511	$0 0515	$0 0518	$0 0522	
110	Intrastate toll	$0 0200	$0 0200	$0 0200	$0 0202	$0 0203	$0 0204	$0 0206	$0 0207	$0 0209	

Added operating expense that are modeled as percentages of added revenue

#	Description	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
111	LEC Vertical services		30 00%	30 00%	30 00%	30 00%	30 00%	30 00%	30 00%	30 00%	
112	LEC Special Access Services		64%	64%	64%	64%	64%	64%	64%	64%	
113	Private line services		64%	64%	64%	64%	64%	64%	64%	64%	
114	Other and misc LEC services (billing & collection, etc)		40 00%	40 00%	40 00%	40 00%	40 00%	40 00%	40 00%	40 00%	
115	Other IXC/CLEC revenue (other than switched toll)		70%	70%	70%	70%	70%	70%	70%	70%	

Expense kickers

#	Description	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
116	Percentage of loops that are unbundled above which full additional expenses occur		0%	4%	8%	12%	16%	20%	24%		
	Total added LEC marketing expense when unbundled loops exceeds threshold										
117	Residential (billions)		$0 0	$0 3	$0 3	$0 3	$0 3	$0 3	$0 3	$0 3	
118	Business (billions)		$0 0	$0 3	$0 3	$0 3	$0 3	$0 3	$0 3	$0 3	
	Total added LEC marketing expense if LEC share of "total bill" customer loops exceeds threshold										
119	Residential (billions)		$0 3	$0 3	$0 3	$0 3	$0 3	$0 3	$0 3	$0 3	
120	Business (billions)		$0 3	$0 3	$0 3	$0 3	$0 3	$0 3	$0 3	$0 3	
	Total added IXC marketing expense if LEC share of total bill loops exceeds threshold										
121	Residential (billions)		$0 3	$0 3	$0 3	$0 3	$0 3	$0 3	$0 3	$0 3	
122	Business (billions)		$0 3	$0 3	$0 3	$0 3	$0 3	$0 3	$0 3	$0 3	
	Maximum percent by which LEC reduces embedded costs in year if prior										
123	year ROR on rate base fell below 7 5% in prior year		5 0%	5 0%	5 0%	5 0%	5 0%	5 0%	5 0%	5 0%	

Rates of change in costs

#	Description	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
124	Annual change in CIC for loops (before inflation)			-2 00%	2 00%	2 00%	-2 00%	2 00%	-2 00%	-2 00%	2 00%
125	STD			0 01							
126	Annual change in CIC for access minutes (before inflation)			-2 00%	2 00%	-2 00%	2 00%	-2 00%	-2 00%	-2 00%	-2 00%
	Decrease to CIC for access minutes for the first year										
127	that competition exceeds % of loops specified on line 116			0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%
128	[shown for appropriate years]		0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	
129	Annual change in CICs for toll minutes (before inflation)			-2 00%	-2 00%	2 00%	-2 00%	-2 00%	-2 00%	-2 00%	-2 00%
130	STD			0 01							
131	Annual change in embedded cost before inflation (LEC, IXC & CLEC)		-1 00%	-1 00%	-1 00%	1 00%	1 00%	-1 00%	-1 00%	-1 00%	
132	STD			0 01							
133	Annual change in added cost of billing/collection per new line		-1 00%	-1 00%	-1 00%	-1 00%	-1 00%	-1 00%	-1 00%	-1 00%	

Investment
Additions to LEC gross plant

#	Description	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
134	Net replacement investment [percentage of prior year plus constant]					percentage		0 7760%	Constant		$1 00
135	Per added residential primary loop (in dollars)	$600	$600	$600	$606	$612	$618	$624	$631	$637	$643
136	Per added residential additional loops	$200	$200	$200	$202	$204	$206	$208	$210	$212	$214
137	Per added business loop (in dollars)	$500	$500	$500	$505	$510	$515	$520	$526	$531	$536
138	Per 'shadow' loop (in dollars) [see line 151 below]	$100	$200	$200	$202	$204	$206	$208	$210	$212	$214
139	Per thousand added access minutes (in dollars)	$23	$23	$23	$24	$24	$24	$24	$25	$25	$25
140	Per thousand added toll minutes (in dollars)	$30	$30	$30	$31	$31	$31	$32	$32	$32	$32
141	To a loop unbundleable (in dollars)	$1	$1	$1	$1	$1	$1	$1	$1	$1	$1
142	For vertical services per $1000 added revenue	$100	$100	$100	$101	$102	$103	$104	$105	$106	$107
143	For special access per $1000 added revenue	$1,000	$1,000	$1,000	$1,010	$1,020	$1,030	$1,041	$1,051	$1,062	$1,072
144	For private line per $1000 added revenue	$1,000	$1,000	$1,000	$1,010	$1,020	$1,030	$1,041	$1,051	$1,062	$1,072
145	For other & misc per $1000 added revenue	$100	$100	$100	$101	$102	$103	$104	$105	$106	$107

Key Cost Specifications - continued

Rates of change in investment per unit (before inflation)

#	Description	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
146	Per loop or access minute		1 7%	1 5%	1 6%	-1 8%	-1 7%	-1 7%	-1 7%	-1 7%	-1 7%
147	Associated with stranded plant		1 7%	1 5%	1 6%	-1 8%	-1 7%	-1 7%	-1 7%	-1 7%	-1 7%
148	To make loops unbundleable		1 7%	1 5%	1 6%	-1 8%	1 7%	-1 7%	1 7%	1 7%	-1 7%
149	Per toll minute		1 7%	1 5%	1 6%	-1 8%	-1 7%	-1 7%	-1 7%	1 7%	-1 7%
150	All other types of investment		1 7%	1 5%	1 6%	-1 8%	1 7%	-1 7%	-1 7%	-1 7%	-1 7%

Unavoidable costs when loops are lost to facilities based competition

Note: The model adds fixeds amount CIC expense and investment per loop Reductions in total loops, therefore, reduce total expenses and investment In reality, when loops are lost to competition, some portion of the plant and associated expenses remain Even though total loops may be growing, some losses to facilities competition may be occuring The spreadsheet uses "shadow growth" to model this You should specify a loop growth rate below which some costs are unavoidable and some plant is stranded due to facilities-based competition For each loop below the threshold you specify, a small fraction of a shadow or stranded loop is imputed The fraction increases until it reaches 1 shadow loop per lost loop at the second user specified threshold A third specification sets the percentage of normal CIC for each shadow loop that will be included in expenses Since costs associated with lost customers can be reduced over time, you should use the fourth specification to set the percentage of CIC for shadow

CCB/OGC Simulation

loops that will be eliminated in each of ten successive years. The investment associated with stranded plant per shadow loop is specified on line 138. The rate of change in that specification is set by the user in line 147.

			1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
151	Loss in line growth at which cost is increased to represent stranded plant					0.0%						
152	Loss in line growth at which maximum "shadow" lines per lost line is imputed					0.0%						
153	Percentage of ordinary line cost attributed to "shadow" lines					0%						
154	% of which is reduced in each of 10 successive years (maximum 10%)					0%						
	Key Growth Rates and Ratios											
155	Growth rate for vertical services per line		2.51%	0.54%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%
156		STD				0.03						
157	Underlying growth in total residential lines		2.57%	3.25%	2.90%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
158		STD				0.01						
159	Underlying growth in business lines		5.05%	1.55%	6.30%	5.30%	5.30%	5.30%	5.30%	5.30%	5.30%	5.30%
160		STD				0.02						
	Underlying toll-minute growth (exclusive of price elastic stimulation)											
161	Residential interLATA interstate (per household)				3.50%	3.50%	3.50%	3.50%	3.50%	2.25%	2.25%	2.25%
162		STD				0.01						
163	Residential interLATA intrastate (per household)				3.00%	3.50%	3.50%	3.50%	3.50%	2.25%	2.25%	2.25%
164		STD				0.01						
165	Residential intraLATA (per household)				1.00%	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%
166	Business interLATA toll per line		5.06%	0.16%	1.00%	5.00%	5.00%	5.00%	5.00%	2.25%	2.25%	2.25%
167		STD				0.01						
168	Business intraLATA toll per line				1.50%	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%
	Special access revenue		-2.5%	5.6%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
170	Percent of special access that is interstate		68.7%	68.7%	68.7%	68.7%	68.7%	68.7%	68.7%	68.7%	68.7%	68.7%
171	LEC private line & misc toll revenue		12.8%	10.2%	0.0%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
172	Percent of PL & misc that is interstate		0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
173	All other LEC revenue		4.7%	3.7%	9.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
174	Percent of other revenue that is regulated		75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%
175	Percent of other revenues that is interstate		2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%
176	Growth rate in other taxes		1.5%	0.4%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%
177	Interest expense as percent of net plant		2.6%	2.4%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
178	Effective FIT rate		31.8%	33.1%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%
179	LEC shareholder equity as percent of net plant		46.6%	15.7%	46.0%	46.0%	46.0%	46.0%	46.0%	46.0%	46.0%	46.0%
180	Growth in other IXC revenue				3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
181	percent of other IXC revenue that is interstate		80%	80%	80%	80%	80%	80%	80%	80%	80%	80%
182	Growth in other CLEC revenue				10%	10.0%	9.5%	9.0%	8.6%	8.1%	7.7%	7.4%
183	percent of other CLEC revenue that is interstate		73%	73%	73%	73%	73%	73%	73%	73%	73%	73%
184	Growth rate in mobile other than cellular & PCS				2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
185	Growth in cellular & PCC		30.5%	41.8%	14.0%	10.10%	10.10%	10.10%	10.10%	10.10%	10.10%	10.10%
186	percent mobile & cellular revenue that is interstate		7%	7%	7%	7%	7%	7%	7%	7%	7%	7%

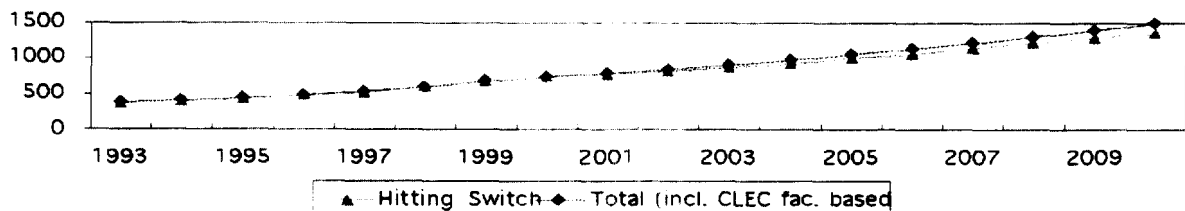| CCB/OGC Simulation	1996	1997	1998	1999	2000	2001	2002
0% markup, 85% discount, access to cost							
Toll Minutes (billions)	475.1	519.4	606.2	695.7	759.0	819.4	883.5
Telephone Penetration	93.9	94.0	94.0	94.1	94.1	94.1	94.2
Inflation Index	105.2	108.1	111.0	114.0	117.1	120.3	123.5
Residential Price Index (1994 = 100)	98.1	98.6	87.5	86.5	85.9	85.4	84.9
Average Total Residential Bill at 1994 Usage Levels							
Lowest toll users	$30	$29	$29	$30	$30	$29	$29
Mid Range Customer	$47	$47	$47	$43	$43	$43	$43
Highest 3% of toll users	$229	$225	$224	$176	$172	$170	$169
LEC high cost/Surcharge funding ($Billions)	$0.7	$0.7	$0.7	$0.7	$0.7	$0.7	$0.7
Total LEC Revenues ($Billions)	$106.2	$111.2	$109.5	$125.0	$133.5	$135.8	$138.1
LEC EBITDA ($Billions)	$50.5	$54.0	$45.4	$55.5	$60.7	$61.4	$61.8
LEC EBITDA (1994 $Billions)	$48.0	$49.9	$40.9	$48.7	$51.8	$51.1	$50.1
LEC rate of return on rate base	14.4%	16.1%	10.7%	15.5%	17.9%	18.2%	18.5%
Total IXC & CLEC Revenues ($Billions)	$75.1	$83.3	$69.9	$71.5	$76.2	$86.3	$96.9
IXC & CLEC operating profits ($Billions)	$24.0	$26.9	$29.9	$30.3	$31.7	$35.7	$40.1
IXC & CLEC operating profits (1994 $Billions)	$22.8	$24.9	$27.0	$26.5	$27.1	$29.6	$32.4
Productivity: forecast period divided by historic period		LEC Input:		182.5%	Iustry Price:		147.1%

Change in Consumer Surplus from Base Case (billions)							
Residential	$0.0	($0.8)	$6.8	$7.8	$8.1	$8.4	$8.6
Business	$0.0	($0.8)	$7.6	$9.0	$10.0	$10.8	$11.7
LEC Surplus	$0.0	($0.1)	($7.7)	($3.2)	($1.6)	($3.0)	($4.7)
IXC & CLEC	$0.0	$0.1	$0.2	($1.4)	($2.0)	($1.1)	$0.0
Government	$0.0	$0.1	($4.9)	($3.5)	($3.2)	($3.4)	($3.6)
total	$0.0	($1.4)	$2.0	$8.6	$11.3	$11.6	$12.0

Residential Price Index
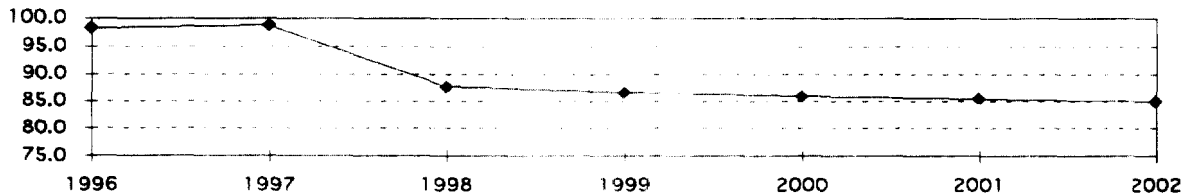
0.05 #
0.05 #
0.05 #
0.05 #

Interstate 'Access Like' Minutes
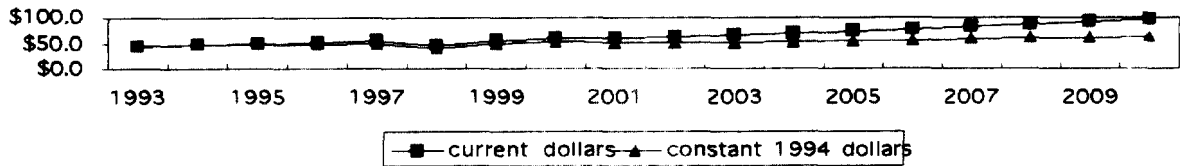

▲ Hitting Switch ◆ Total (incl. CLEC fac. based)

0.05 #

LEC Revenues & Expense

■ Revenues ⊟ Expenses

LEC EBITDA

$100.0
$50.0
$0.0

1993   1995   1997   1999   2001   2003   2005   2007   2009

■ current dollars ▲ constant 1994 dollars

Total Loops

300
200
100
0
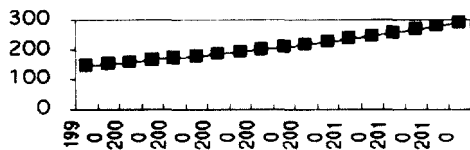
Household Bills at 1994 Usage Levels

$32
$30
$28

■ Lowest toll usage ◆ middle toll usage
▲ high toll usage   ⊟ top 3%
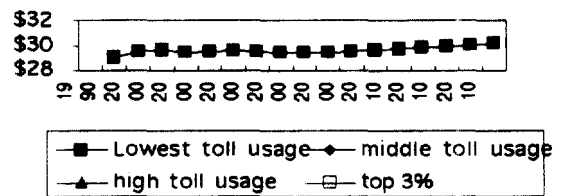
Interstate Access Charge per Minute

$0.0400
$0.0300
$0.0200
$0.0100
$0.0000

1990   2000   2000   2000   2000   2000   2010   2010   2010

LEC Access Revenues

$25.0
$20.0
$15.0
$10.0
$5.0
$0.0

1990   2000   2000   2000   2000   2000   2010   2010   2010

LEC Net Plant

$170.0
$160.0
$150.0
$140.0

1993   1995   1997   1999   2001   2003   2005   2007   2009

Return on Rate Base

50.0%
40.0%
30.0%
20.0%
10.0%
0.0%

1993   1995   1997   1999   2001   2003   2005   2007   2009
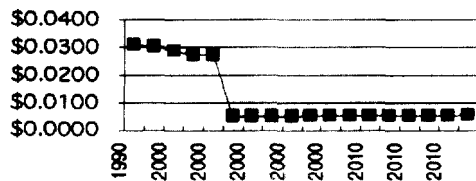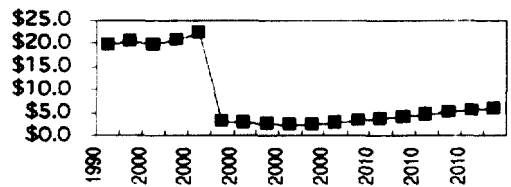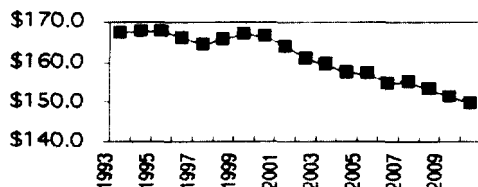
IXC/CLEC Operating Income
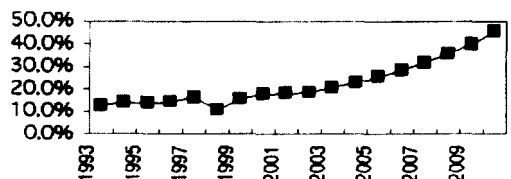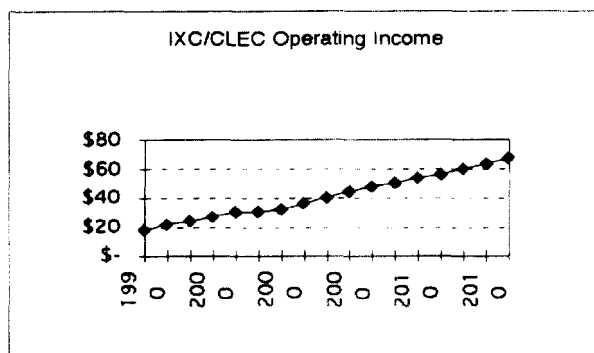
	Ameritech		Bell Atlantic		BellSouth		NYNEX		PacTel		SBC		US West	
2000														
Earnings Loss	$	92	$	85	$	101	$	61	$	39	$	93	$	47
Percent Decrease in Earnings		3.10%		3.10%		3.10%		3.10%		3.10%		3.10%		3.10%
ROE		22.09%		21.97%		17.51%		19.82%		35.95%		22.64%		28.19%
Cash/Construction		193.06%		148.04%		147.82%		130.50%		109.47%		183.38%		131.82%
Earnings/Dividends		195.13%		196.46%		185.15%		183.50%		129.44%		212.48%		145.16%
Stock Price Effect														
1996 Stock Price After Hit	$	56.60	$	64.91	$	38.55	$	49.63	$	28.75	$	52.89	$	32.26
February 1996 Stock Price	$	59.63	$	68.38	$	40.38	$	52.13	$	30.25	$	55.75	$	34.00
Percent Decrease		5.09%		5.07%		4.53%		4.79%		4.96%		5.13%		5.12%
Composite Decrease		4.96%												

CERTIFICATE OF SERVICE

I, Carolyn McTaw, do hereby certify that copies of the foregoing Comments were sent via first class mail, postage paid, to the following on this 8th day of July, 1996.

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